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**ENLARGEMENT
OF THE COMMUNITY:
ANALYSIS OF THE
TRANSITION PERIOD FOR
SPANISH AGRICULTURE**

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INTRODUCTION

The present study was carried out by the Agriculture Division of the Directorate-General for Research of the European Parliament. It gives some background information on the problems arising in the 'sensitive' area of agriculture which flow from the accession of Spain.

There is a succinct account of the rules governing the integration of Spanish agriculture into the Community agricultural system as defined in the Act of Accession.

In the first part, the transition arrangements are analysed. In the second part, the specific characteristics of each sector are examined and an attempt is made to indicate the consequences for each sector of enlargement.

A complete study would require much greater space. Consequently this analysis has been confined to the most significant subsectors:

- fresh fruit and vegetables, wine and olive oil (for Mediterranean-type products).
- fats, cereals, meat and dairy products (for continental-type products).

The present work, originally published in Spanish, is also available in French.

Luxembourg, March 1987

A. TRANSITION ARRANGEMENTS FOR AGRICULTURE

The accession of Spain to the European Community is of exceptional importance for the agricultural sector, because of Community agricultural policy and the specific importance of this sector within the Spanish economy. Integration into the CAP must be achieved harmoniously, and a series of arrangements has been established for the transitional period. On the one hand there are measures we may call 'conventional', which were used when countries joined in the past, and special new measures affecting only specific sectors (special transition measures) or products (the Supplementary Trade Mechanism).

(1) Conventional transition, for, in general, a maximum of 7 years (with some exceptions), involves:

- a specific safeguard clause for agricultural products which operates for 10 years
- Customs union, leading to:
 - . the elimination of tariff and non-tariff barriers to trade between Spain and the Ten and Portugal,
 - . adoption of the CCT for trade with third countries,
 - . the revision of Spain's existing treaties and adoption of the Community's foreign trade policy.
- alignment of aid over a period of ten years. Provisions on structural aid apply from the date of accession.
- approximation of prices, and the application of the 'Accession' Compensatory Amount, designed to compensate for the differences in institutional prices. The role of the ACA is equivalent to that of a subsidy or a levy on exports, depending on whether the prices were higher or lower before accession.

(2) Special transition measures, maximum duration 10 years, involve:

- a two-stage transition for fruit and fresh vegetables:
During the first phase, the Spanish market will be to a large extent isolated from the Community market. During the second stage, conventional transition arrangements will be implemented;
- and a transition with a prior 'Standstill' period for vegetable oils and fats:

The Spanish market will not be open to the Community and to third countries until the end of the fifth year of the transition period.

Independently of the arrangements for conventional or special transition measures, and in order to protect sensitive Spanish or Community products, a special system is being introduced:

(3) The Supplementary Trade Mechanism (STM)

This control system is based on quotas and applied in two forms for certain sensitive products

- (a) By establishing an indicative upper limit each year on the basis of production and consumption estimates, with an annual growth rate.
- (b) For a period of 4 years in the case of specified products the above limit is strengthened by fixing an 'objective' import ceiling for Spain. This differs from the preceding case in that the ceiling is fixed in the Treaty of Accession and when it is reached imports are automatically suspended.

B. ANALYSIS BY SECTOR

1. FRESH FRUIT AND VEGETABLES

1.1. MARKET SITUATION

Spanish production

Spain, which enjoys clear relative advantages in this sector, exports a large part of its production (in the case of citrus fruit between 50 and 75%), mainly to the Community market (between 75 and 90% of exports are to the Ten).

Community consumption

Fruit and fresh vegetables are amongst the few agricultural products whose consumption has continued to rise in recent years.

	The Ten	Spain	as % of the ten
<u>Production (1 000 tonnes)</u> (Average 82-84)			
Vegetables	29,324	8,939	30.5
Fruit	17,098	2,397	10.5
Citrus fruit	4,072	3,138	77.0
<u>Percentage of final agricultural output 1983</u>			
Vegetables	7.5	12.2	
Fruit	4.1	7.2	
Citrus fruit	0.9	5.1	
<u>Self-sufficiency</u> (Average percentage 82-84)			
Vegetables	100	119	
Fruit	84	112	
Citrus fruit	45	283	
<u>% of EAGGF Guarantee Expenditure</u>			
1985	6.2		
1987 (estimate)	4.2		

(1)

¹The Agricultural Situation in the Community, 1985 Report.
Preliminary Draft general budget 1987, Commission.

1.2. ANALYSIS OF TRANSITION MEASURES

- DURATION AND TYPE OF TRANSITION

Special transition measures, maximum duration 10 years, divided into two phases (1986-1989; 1990-1995), the second following automatically on the first. In accordance with the Treaty of Accession the first phase will give the Spanish fruit and vegetable sector the opportunity to strengthen producer groups, apply Community quality standards and generally improve infrastructure.

- PRICE AND INTERVENTION ARRANGEMENTS

A. First phase

Approximation of prices: from 1 March 1986, Spain adopted the Community institutional prices (basic price and buying-in price) with annual increases not exceeding Community increases in value terms, which means that the difference between the two will be retained for the first four years.

Intervention : the EAGGF Guarantee Section finances only a percentage equal to that of the production accounted for by the producers' organizations.

B. Second phase

Approximation of prices: this will be carried out in 6 equal instalments.

Intervention: all costs will be charged to the Community.

- AID ARRANGEMENTS

A. First phase

Since 1 January, 1986 producers' organizations could benefit from Community aid for their development and to facilitate their administrative operation.

B. Second phase

Spanish national aids incompatible with Community aids will be phased out, and Community aids will be introduced in Spain, alignment taking place over 6 years.

- TRADE WITH THE TEN

1. Elimination of tariff barriers

. For products subject only to customs duties: 11 annual instalments of 9.1%².

. For products subject to customs duties and to reference prices, with a view to eliminating the discrimination of Spain in relation to Mediterranean non-member countries (which will be achieved at the beginning of the sixth year), the tariff barriers will be removed in 11 annual instalments of 10%, 10%, 10%, 10%, 25%, 15%, 4%, 4%, 4% and 4% respectively³.

²The basic duty is that paid by Spain under the agreement of 1970

³Affecting 80% of Spanish exports of fruit and vegetables to the Ten.

2. Exports to the Ten

A. First phase

The reference price system continues to operate during this period, but provision is made for the reduction of countervailing charges on exports. Spain will be able to maintain the sectoral trade arrangements it has hitherto applied to exports (citrus fruit, tomatoes, cucumbers) but adapting them to the system of free movement of goods in such a way that they will have completely disappeared by the end of the first phase.

B. Second phase

The Ten will continue to apply a mechanism of correcting amounts which means that the reference price is replaced by a Community offer price (which may not exceed the reference price applicable to third countries). The Spanish entry price will be replaced by an offer price, in the calculation of which the full rate of customs duty specified in the Common Customs Tariff (CCT) will be reduced each year by one sixth.

STM: Imports to the Community of Ten are subject in principle to an indicative import ceiling. Before the end of the second phase, the list of products subject to this arrangement may be reduced.

3. Imports from the Ten

A. First phase

Spanish quantity restrictions are being abolished, except for 13 of its products subject to annual quotas equal to 3% of the average production for the period 1982 - 1985, with a 10% annual increment⁴.

A timetable has been established for apples, pears, apricots and peaches.

B. Second phase

Community arrangements will be applied in full. Where special difficulties arise, Spain may seek to extend the list of its imports subject to STM.

4. Imports from Third Countries

Community preferences granted to third countries will apply in Spain progressively from 1 January 1990 in seven equal instalments of 14.3%.

1.3. CONCLUSIONS

The competitiveness of Spanish fruit and vegetables is considered to be a 'sensitive' sector by the Ten. Specific measures have been laid down to limit the impact of the liberalization of the market!

⁴cauliflowers, carrots, onions, garlic, tomatoes, oranges, mandarins, lemons, table grapes, apples, pears, apricots and peaches

- Integration with the most substantial elements of Community policy (approximation of prices, phasing out of reference prices) will not take place until the end of the first phase.
- The customs advantages enjoyed by the Mediterranean preferential countries will begin to disappear at the commencement of year six.

However, despite these transition measures, Spain's comparative advantages mean good long-term prospects for Spanish production.

2. WINE

2.1. MARKET SITUATION

Spanish Production

This is a highly competitive Spanish sector with room for growth; the most extensive vineyards in the world, with a present average yield of 23 hl/ha, produce little more than a third of the Community's average yield. This weakness in production is

partly explained by Spanish vineyards being traditionally located in dry areas and by the strict ban on the irrigation of vines.

	The Ten	Spain	As % of The Ten
Production (1 000 HL) (Average 82-84)	160,081	39,445	24.6
% of final agricultural output (1983)	4.8	4.2	
Area under vines (1 000 hectares 1983)	2,512	1,697	
Self-sufficiency (average % in 82-84)	102	117	
% of EAGGF Guidance expenditure			
1985	4.7		
1987 estimate	5.6		

(*)

Community consumption

This is dropping in the Community of Ten.

2.2. ANALYSIS OF TRANSITION MEASURES

- DURATION AND TYPE OF TRANSITION

Conventional: 7 years for Customs Union, alignment of prices and aids,

10 years maximum for the STM, the retention of incompatible aids and the application of the protective clause

but with specific procedures.

*See footnote page 4

- PRICE AND INTERVENTION ARRANGEMENTS

The internal market regulation applies only to table wines, thus excluding the so-called 'quality wines p.s.r.' (quality wines produced in specified regions), which have their own specific regulations.

Alignment of prices

A guide price applicable to Spain is being worked out, to approximate to the Community price in 7 annual instalments, on the basis of the price applicable on the date of accession under the Spanish regulatory compulsory distillation rules.

There is also a further approximation over 5 years of the Spanish and Community percentages regulating distillation.

Intervention

Compulsory distillation is applied on a basis of an average reference production of 27.5 million hectolitres. Applying the 85% coefficient this is reduced to 23.3 million hectolitres. This threshold remains in force up to and including the 1989 - 90 marketing year. The purchase price for wine delivered for compulsory distillation corresponds to 50% of the guide price for the first 12.5 million hectolitres⁵ and to 40% thereafter.

Vine-planting control

The Community regulations apply in their entirety (prohibition of new planting until 31 August 1990, replanting authorized in existing vineyards).

Abandonment premiums for vineyards: valid until 1990

The premiums granted to Spanish winegrowers, which are based on the price of Spanish wine, while higher than before, are still substantially lower than those granted in the rest of the Member States. It should also be noted that the premiums are granted in Spain for the whole area under vines, while elsewhere they are available only for the least suitable land (land in categories 2 or 3).

- AID ARRANGEMENTS

Aids are to be granted in Spain from 1 March 1986 (except abandonment premiums).

⁵ Modified by the agreement reached in Dublin (4 December 1984) where the limit was fixed at 10 million

- TRADE WITH THE TEN

Abolition of tariff barriers: this will be carried out over seven years, with an annual reduction of each basic duty by 12.5% from 1986.

Regulatory amounts

With very high differences between institutional prices, the Accession Compensatory Amounts could constitute a disproportionate subsidy for Community exports to Spain.

For this reason certain regulatory amounts have been introduced in place of the ACA with a ceiling⁶ to prevent any further imbalance in trade between the Ten and Spain. These amounts apply to table wines and to those quality wines capable of disturbing the market.

STM

The supplementary trade mechanism will be applied in any case, with fixing of annual supply plans and indicative import ceilings.

Imports may be suspended if the market is disturbed.

- CUSTOMS UNION AND THIRD COUNTRIES

Exports: refunds are to be granted from 1 March 1986.

Imports: for products subject to reference prices and products where the difference in duties is less than 15%, the Common External Tariff is to apply from 1 March 1986.

For other products, alignment is being carried out in eight instalments.

2.3. CONCLUSIONS

The Act of Accession opens new perspectives for the production potential and competitiveness of Spanish wine-growing. The following points stand out:

1. Table wines

Increased use is being made of the mechanism of compulsory distillation to regulate the traditional wine surpluses.

An increase in Spanish production would mean a greater volume of distillation than for wine in other Community countries, where the yields are already very high and whose growth potential is therefore restricted.

Within this framework, however, the price differences that exist between the Ten and Spain mean that a simple increase in production, where this is possible, could raise the income of Spanish wine-growers.

⁶The ceiling is set in such a way that the total of the amount plus the guide price in Spain and the customs duty do not exceed the reference price in force.

2. Quality wines

In any case the future of the Spanish wine industry rests especially on its potential for producing quality wines at reasonable prices.

The classification 'quality wines p.s.r.' is much wider than Spanish designations. Hence the 27 Spanish designations within the 'quality wines p.s.r.' classification can be extended to include the areas with regional designations and the wine-growing areas.

Considering that 'quality wines p.s.r.' do not suffer from difficulties of marketing, because of their limited availability and a steady demand, accession will have positive results provided that Spanish producers are able to adapt to demand in the other Member States and the flexibility of this demand allows an increase in consumption.

3. OLIVE OIL AND FATS

3.1. MARKET SITUATION

Spanish production

In Spain there is a traditional policy of protection for olive oil: a very strict regulation of imports of oilseeds (except soya) and of olive oil substitutes.

Community consumption

Oils display a high degree of substitutability due to the price relations between them. The Spanish market is almost equally divided between sunflower oil and olive oil (both nationally produced). The consumption of fats is much more diversified in the Ten: animal fats are of great importance and preference for olive oil is waning.

	The Ten	Spain	As % of The Ten
<u>Production (1 000 HL)</u> (Average 82-84)			
Olive oil	954	470	49.3
Oilseeds	4,256	760	17.9
<u>Area (1 000 hectares 1983)</u>			
Olive oil	1,912	2,090	
Oilseeds	1,887	950	
<u>Self-sufficiency (average % in 81-84)</u>			
Olive oil	100	126	
<u>% EAGGF Guidance expenditure</u>			
Olive oil			
1985	3.5		
1987 estimates	5.1		
Colza, rapeseed and sunflower			
1985	5.6		
1987 estimates	8.2		

(*)

* See footnote page 4

3.2. ANALYSIS OF TRANSITION MEASURES

- DURATION AND TYPE OF TRANSITION

10 years: - 5 years of 'Standstill'⁷: maintenance of the regulations for control of imported quantities and prices of oilseeds (except soya) and of seed oils (except oil cake and residues).

- From 1991, approximation in 5 years.

- PRICE AND INTERVENTION ARRANGEMENTS

A. Alignment of prices

(a) Olive oil

Until the planned amendment of the Community regulations comes into force: alignment in instalments of 1/20.

Thereafter any remaining difference will be eliminated by annual alignments designed to produce price parity at the end of the 10-year period.

(b) Oilseeds

Linear alignment over 10 years of Spanish prices incremented under the current national aid measures.

B. Intervention

The intervention agencies buy all olive oil and all seeds offered to them, without limit.

However, for colza, rape and sunflower seeds, the Act of Accession provides for the application of different guarantee thresholds for Spain, fixed on the basis of the highest level of production recorded in the three marketing years 1982-1985: if these quantities are exceeded a penalty not exceeding 5% of the price will be applied to the price for the following season.

⁷The 'Standstill' system was introduced to prevent disruption of the Spanish market and permit the Community to analyse the future operation of the sector.

- AIDS

(a) Olive oil

. Production aid:

This aid is granted in EC 9 only in respect of areas planted at 31 October 1978 and in the case of Greece at 1 January 1981. In Spain it is applied from 1 March 1986 to the area under cultivation on 1 January 1984, with approximation to the higher level of Community aid within 10 years: Refunds were granted for olive oil used in the preparation of preserved fish and vegetables from March 1 1986.

. Consumption aid:

This will apply only from 1 January 1991, as a result of the unchanging price relationships between olive oil and oil substitutes until that date, due to the 'Standstill'.

(b) Oilseeds and seed oils

Oilseed processing aids have applied from accession. In the first five years the increase is proportional to the approximation of prices. From the fifth year the aids will offset the difference between Spanish prices and those of the world market, minus Spanish customs duties in the case of third countries.

- TRADE WITH THE TEN

(a) Olive oil

From March 1986, the national system is replaced by that of accession compensatory amounts. The compensatory amount must in no case exceed the 'prélèvement' applicable to third countries⁸, and must be reduced by the amount of the consumption aid in the Member States during the first five years, during which this aid does not apply to Spain.

(b) Oilseeds and seed oils

The system of accession compensatory amounts applies.
Abolition of tariff barriers:

- oilseeds, meal and oilcake: 10 years (11 equal instalments of 9.1%)
- seed oils (except soya, and soya oilcake and meal). Base duties are maintained until the end of the 'Standstill' (5 years) and then phased out in 6 instalments of 16.7% each.

⁸ for the 85-86 season the difference was 120.7 ptas. per kg.: the standard rate on Spanish exports to the Ten - compensatory amount - would thus be higher than the 'prélèvement'.

- CUSTOMS UNION AND THIRD COUNTRIES

(a) Olive oil

- . From 3 March 1986 the Spanish tariff was automatically replaced by the variable protection system modified by the accession compensatory amounts.
- . Community refunds will be granted for export packages of 5 litres and more.

(b) Oilseeds and seed oils

The approximation of Spanish tariffs with the Common Customs Tariff will take place over the following time-span:

- . seeds: 10 years (11 equal instalments of 9.1%)
- . oils: 5 years from the end of the 'Standstill' (six instalments).

Exports will qualify for refunds, modified by the appropriate accession compensatory amounts.

Imports during the 'Standstill':

- . imports of oilseed other than soya bean and its oilcake and meal derivatives will continue to be affected by quantitative restrictions.
- . imports of soya remain unrestricted to satisfy the demand for animal feed. Oil produced from crushing in excess of the quantity admitted on the Spanish market (90 000 tonnes) must be exported.

Community preferential arrangements both for olive oil and oil seed will not apply in Spain until 1991.

3.3. CONCLUSIONS

It is practically impossible to analyse the consequences of the Act of Accession for oils and fats while the difficult but necessary readjustment of Community policy in this sector remains unresolved. In the enlarged Community, with four olive-oil producing countries, the current regulations, which permit liberalization of the olive and seed oil market at price levels similar to those of the world market, may be unviable, without incurring the high costs of financing a support policy for olive oil.

The most notable effect of accession is a major increase in olive oil prices in Spain which will have the following consequences unless the present 'acquis communautaire' is modified:

- An increase in producers' income and a corresponding increase in FEOGA guarantee expenditure.
- A liberalization of trade in oilseeds and vegetable oils in Spain.
- A foreseeable fall in Spanish olive oil consumption, despite Community measures to maintain the present level of consumption which may lead to major surpluses and the application of restrictive measures.

4. CEREALS AND RICE

4.1. MARKET SITUATION

Spanish production

Cereals: Spain is seriously deficient in cereals, with very low average yield except for maize and durum wheat, where productivity is at a level similar to that for the Community⁹.

Until accession, Spanish cereal imports came principally from the USA and Argentina.

	The Ten	Spain	(As % of the Ten)
<u>Production (1 000 tonnes)</u> (average 81-83)			
Cereals	135 587	14 632	10.8
Rice	1 123	359	32.0
<u>% of final agricultural output (1983)</u>			
Cereals and rice	12.1	8.3	
<u>Area (1 000 ha.)</u> 1983			
Cereals	27 663	7 393	
Rice	204	41	
<u>Self-sufficiency</u> (average % 81-83)			
Cereals	109	57	
Rice (Paddy)	130	118	
Husked rice	67.9		
<u>EAGGF guidance expenditure</u>			
Cereals			
1985	11.7		
1987 (estimate)	15.5		
Rice			
1985	0.3		
1987 (estimate)	0.3		

(*)

* See footnote 1, page 4

⁹ For the three-year period 82-84: durum wheat, Spain: 21.50, the Ten: 21.70 (Kg.Ha.)
maize, Spain: 66.30, the Ten: 62.50 (Kg.Ha.)

Rice: rice growing has been governed by rigid regulations limiting the area under cultivation, depending ultimately on the availability of water. The average yields are higher than those of the Ten: 87.6% as against 55%¹⁰.

Community consumption

Cereals intended for animal feed (60% of the total) suffer heavy competition from substitute products imported with low or nil customs duties (manioc, and maize gluten). Rice for human consumption shows a rise in consumption level.

4.2. ANALYSIS OF TRANSITION METHODS

- DURATION AND TYPE OF TRANSITION

Conventional transition: 7 years for the alignment of prices and aid, 10 years for the maximum duration of the STM applicable to wheat and the maintenance of incompatible aid.

- PRICE AND INTERVENTION ARRANGEMENTS

Alignment of prices:

Spain more or less adopted the Community prices from 1 March 1986. In the case of durum wheat and rice, where the Community prices are higher than the Spanish, the approximation will take place in 7 annual instalments of equal size.

Intervention :

Community regulations have applied from 1 March 1986 - (guaranteed purchase with no quantity limit for rice; production thresholds and co-responsibility levies for the 1986/87 season for other cereals).

- AID ARRANGEMENTS

. Aid for durum wheat: this will be increased by one seventh each year from 86-87 until it reaches the amount of the Community aid in the marketing year 1992-93. This aid per hectare is planned for those regions where production is traditional'.

. Production refunds: These have been granted from 1 March 1986 to products containing cereals or rice.

- TRADE WITH THE TEN

From 1 March 1986 exports to Spain have ceased to benefit from Community refunds in force until then.

ACA: In the case of durum wheat and rice this compensation will weight Spanish exports whose prices in Spain are lower than those in the Community.

STM: For Spanish imports of wheat of breadmaking quality an 'objective' ceiling of 175 000 tonnes has been established, increasing annually by 15% for 4 years.

¹⁰ See footnote 1.

STM will not apply to trade in rice or other cereals.

- CUSTOMS UNION AND THIRD COUNTRIES

From 1 March 1986, Spain replaced its system of consolidated tariffs by a system of variable levies and Spanish exports qualified for Community refunds. The amount of the refunds or of the levies is modified by the appropriate ACA. For wheat of breadmaking quality quantitative restrictions on imports into Spain have been established.

4.3. CONCLUSIONS

Cereals for animal feed

The first consequence of accession for Spain is the diminution of former imports from the USA and Latin America and a corresponding increase in exports from the Ten.

The US reacted sharply to the effect of accession on its exports of maize and sorghum to Spain. In January 1987 the EC agreed that over a period of four years special quotas would be opened for the importation into Spain at reduced levy of 2 m. t of maize and 300,000 t of sorghum.

To this is linked the replacement of the traditional imported products (maize, etc.) - because of the sudden price increase that would be caused by Spain applying the variable protection system 'prélèvement' - with products little used in Spain which enter the Community with low or zero customs duties (manioc, and maize gluten) and by wheat and barley as a consequence of substantial and competitive Community supply.

The restrictive price policy initiated by the Ten should not lead to stimulation of Spanish production, but rather have a positive effect on the consumption of cereal animal feeds by stock breeders.

From a social point of view, the maintenance of intervention prices will safeguard crop production and a higher level of income for the Spanish farmer.

Cereals for human consumption

Wheat: the application for four years of the STM to imports into Spain is intended to help this 'sensitive' sector to adapt.

Durum wheat: the relative prices and the aid for planting indicate a future expansion of Spanish production.

Husked rice: if Spanish production adapts to consumer habits (long rice) it will be encouraged by the relative prices (Spanish price equals 76% of the Community price), by the possibility of supplying the shortage on the market of the Ten, and by average yields already higher than those of the Community.

5. DAIRY SECTOR

5.1. MARKET SITUATION

Spanish production

Since the mid 60s Spain has developed its dairy sector almost to self-sufficiency (except for cheese and powdered skimmed milk) by means of a protection policy with regard to imports. Production is concentrated in the North West of the peninsula (67% of the total), employing up to 30% of the working population (Galicia). The average holding is 4.9 cows, against 15.7 in the Ten.

Community consumption

Growth registered in the last 10 years in the Ten is very slight. Spanish shortages in some products offer the Community a market with a certain capacity for absorption.

5.2. ANALYSIS OF TRANSITION MEASURES

- DURATION AND TYPE OF TRANSITION

Conventional transition: 7 years for alignment of prices and aids,
10 years maximum duration of the STM,
maintenance of incompatible aids and application
of the safeguard clause.

- PRICE AND INTERVENTION ARRANGEMENTS

Alignment of prices:

This is one of the few sectors in which Community prices are lower than Spain's. The alignment of prices should result from the gradual development over seven years of common prices in ECU.

Intervention :

- . Community intervention arrangements apply in Spain for skimmed milk and butter.
- . The milk production quotas fixed for Spain on the basis of the 1983 figures are 4 650 000 t. for industrial use and 750 000 t. for direct sales. Production in excess of this brings penalties of up to 100% of the target price.

To these arrangements laid down in the Act must now be added the latest measures adopted by the Council of Ministers in April and December 1986 in order to reduce the milk surplus. Spain must reduce its milk quota by 8.5% in the 1987/88 and 1988/89 marketing years: a compulsory 3% (2% in 1987, 1% in 1988)¹¹; and a further voluntary 5.5% under a temporary suspension system backed with Community Funds.

- . Exemptions from the co-responsibility levy;

Spain has a right to total or partial exemption in the case of less favoured or mountainous regions, small producers etc., i.e., all the major dairy producing areas (Galicia, Cantabria, Asturias etc.).

¹¹ However Spain has appealed against the compulsory nature of this reduction at the European Court of Justice.

	The Ten	Spain	(As % of the Ten)
<u>Milk production</u> (1 000 Hl. average 82.84)	121 005	6 080	5
<u>As % of final agri- cultural output (1983)</u>			
Milk	20.2	9.4	
<u>Self-sufficiency</u> (average % 81-84)			
Butter	131	100	
Dairy products (excl. cream)	101	100	
Skimmed milk powder	132	26	
Cheese	107	91	
<u>EAGGF guarantee expenditure</u>			
1985	30.1		
1987 (estimate)	25.7		

(*)

* See footnote 1, page 4

. The Spanish exclusive marketing arrangements for pasteurized milk remained in operation until 1 January 1987.

- APPROXIMATION OF AIDS

None of the existing aids in the Community dairy sector applied to Spain. They were introduced on 1 March 1986.

- INTRA-COMMUNITY TRADE

State trading in Spain has been abolished. Refunds apply to Community exports to Spain since 1 March 1986.

ACA: Spanish prices being higher than those of the Community, accession compensatory amounts would impede exports from the Ten to Spain.

STM: In order to lighten the impact of the abolition of state trading the following 'guide' quantities have been fixed:

Milk and fresh cream:	200 000 t
Butter :	1 000 t
Cheese :	14 000 t

with an annual increase rate of 10 - 15%. These are quantities which can reasonably be assimilated by the Spanish market. No 'guide' quantity has been fixed, however, for powdered milk intended for human consumption.

- CUSTOMS UNION AND THIRD COUNTRIES

Imports

For products included in the common organization of markets the system of customs duties in Spain was replaced on 1 March 1986 by the variable protection system: 'prélèvements' modified by the appropriate ACA.

Quantitative restrictions apply to those products restricted also with respect to the Ten (cheese, butter, fresh milk and cream).

Exports

From 1 March 1986 Spanish exports qualified for refunds, modified by the appropriate ACA.

5.3. CONCLUSIONS

In general terms the integration of this Spanish sector appears problematic. However, the four years adaptation period, with limited competition on the Spanish market (STM) and simultaneous application of the rest of the alignment policy, offers an opportunity for the urgent modernization of the stock-breeding sector. The need for restructuring and modernization will be accentuated by liberalization of the market. The results depend on the reaction within the sector.

During this period Spain will benefit from general socio structural measures and from measures which apply to disadvantaged areas.

The growth in Spanish productivity generated by modernization will clash with the limits imposed on the expansion of production in the Community (quota system, etc.). On the other hand, if the price policy of the Twelve

is sufficiently restrictive to prevent serious surpluses, Spain may have to pay a high cost in terms of the loss of earnings for stock-breeders, owing to the possibility of part of dairy production passing into the Community intervention system at prices lower than those of the Spanish market.

6. MEAT

6.1. MARKET SITUATION

Spanish production

A protectionist policy has created virtual self-sufficiency in meat. Production structures are markedly different from those of the Community with beef and veal and pigmeat less prominent.

	The Ten	Spain	As % of the Ten
<u>Production (1 000 tonnes)</u>			
(average 81-83)			
Beef and veal	6 854	420	6.1
Pigmeat	10 302	1 085	10.5
Sheepmeat	709	141	19.8
<u>% of final agricultural output</u>			
(1983)			
Beef and veal	14.7)	29.4	
Pigmeat	11.0)		
Sheepmeat	1.7)		
<u>Self-sufficiency (average %</u>			
<u>81-83)</u>			
Beef and veal	104	92	
Pigmeat	102	99	
Sheepmeat	74	99	
<u>EAGGF guidance expenditure</u>			
. Beef/veal			
1985	13.9		
1987 (estimate)	10.3		
. Pigmeat			
1985	0.8		
1987 (estimate)	1.0		
. Sheepmeat			
1985	2.5		
1987 (estimate)	2.4		

(*)

* See footnote 1, page 4.

Community consumption

Meats are market-competitive products and substitution is particularly easy as consumption patterns vary from one country to another, more beef and veal and pigmeat being eaten in the Ten and more sheepmeat and poultrymeat in Spain.

6.2. ANALYSIS OF TRANSITION MEASURES

- DURATION AND TYPE OF TRANSITION

Conventional transition, with the application of STM (including objective ceilings) for beef and veal and bovine livestock (excluding selected breeding stock).

- PRICE AND INTERVENTION ARRANGEMENTS

Alignment of prices:

- . automatic in the case of sheepmeat and pigmeat
- . spread over 7 years for beef and veal.

In the case of pigmeat the existence of health problems is impeding Spanish exports to the Ten. Hence the intervention measures of the common market organization may apply (aids for private storage or purchase under intervention arrangements).

In the case of excessive purchase or aid to support the Spanish market, restrictive trade measures may be adopted.

- AID ARRANGEMENTS

Alignment of aid for breeding cows will be carried out in seven stages.

Aids to maintain incomes in the sheepmeat sector have been fully applied from the first marketing year, as base prices in Spain and the Community were identical.

- TRADE WITH THE TEN

Elimination of tariff barriers

All customs duties are abolished where they are incompatible with Community regulations (sheepmeat with the exception of select breeding stock, pigmeat, poultrymeat). In the case of beef and veal and sheepmeat, the elimination of tariffs will be carried out in 8 equal annual stages of 12.5%.

Accession Compensatory Amounts

These will regulate intra-Community trade for the seven years of price alignment.

The amounts will be positive for beef and veal exports to Spain. In its price package 1987/88 the Commission has put forward proposals to modify them. For pigmeat and poultrymeat the ACA is calculated on the basis of the amount applicable to the quantity of cereal required to produce one kilogramme of the appropriate products. However, in the pigmeat sector the ACA would equal zero for the first four years.

STM

To cushion the effect of transition, imports to Spain of beef and veal and bovine livestock (except select breeding stock) will be subject to an STM based on 'guide quantities', i.e. quantitative restrictions for 4 years.

- TRADE WITH THIRD COUNTRIES

From 1 March 1986 the Common External Tariff has applied in Spain for the products covered by the regulation on beef and veal.

For the remaining sectors, Spain has adopted the 'prélèvements' variable protection system modified by the appropriate ACA.

For rabbit meat and pigmeat Spain may maintain quantitative restrictions for 10 years.

Spanish exports of beef and veal, sheepmeat and pigmeat (this last if it passes health regulations on arrival) qualify for refunds equal to the difference in prices between the world market and the Spanish market.

6.3. CONCLUSIONS

Accession has important implications for the Spanish stock-breeding sector, which is sensitive and of major social importance.

Beef and veal

The potential growth of Community production as a result of the imposition of the milk quota has negative implications for this already uncompetitive Spanish sector. Moreover, if the very low levels of Spanish consumption remain unchanged, surpluses may be created so that any meat imports may lead to difficulties. However, the consequences of accession depend on the progress of modernization carried out during the period when quantitative restrictions are in force (STM).

Pigmeat

The restrictions imposed by the existence of African swine fever mean that trade will only be from the Ten to Spain. Imports may depress Spanish prices, with inevitable results in the production sector. At the same time, the pigmeat sector absorbs 80% of Spanish barley and hence this product too would be affected.

Sheepmeat

Sheep are a species well adapted to the climate and geography of Spain, and a sector in which the Community is in deficit (degree of self-sufficiency 76%). However, Spain's competitiveness with regard to market prices is average, so that the extent to which opportunities are exploited will depend on Spain's adapting its production to the habits and taste of the European consumer.

GENERAL CONCLUSION AND OUTLOOK

Spain's accession to the European Community is of special importance for the agrarian sector, both for the CAP as the principal integrated Community policy, and for Spanish agriculture itself.

In conjunction with the widespread criticism of the CAP which led recently to publication of the 'green paper' and subsequent proposals for its reform, enlargement will undoubtedly help to accelerate changes in some aspects of existing Community policy.

Moreover, the impact of accession extends beyond the confines of the Community itself and will affect agricultural trade. It will affect Community trade with third countries as was soon apparent in the displeasure voiced by the United States at the deflection of trade in cereals. The problem also remains of redefining the Community's Mediterranean Policy after enlargement.

A balanced agreement on agriculture between the Community and Spain has been reached not without difficulty. Undoubtedly, accession will bring changes in the months and years to come and will effect the Community and Spain in different ways.

The integration of Spanish agriculture constitutes a landmark in the history of the CAP and marks a step towards the integration of Europe in this domain. It is too soon however, for self congratulation. We must await the successful outcome of a process which is only in the initial stages.

January 1987

S.U.M.M.A.R.Y

of the transition period

for Spanish agriculture

	ALIGNMENT OF PRICES	ALIGNMENT OF AIDS	INTERVENTION ARRANGEMENTS	CUSTOMS UNION		
				APPLICATION STM	WITH THE COMMUNITY (trade modified by appropriate ACA) STM	WITH THIRD COUNTRIES
FRUIT AND VEGETABLES	1984-85	For producers' organizations	Intervention minimum percentage		Elimination of tariffs: 10 years Reference prices maintained (exports) Quantitative restrictions: 13 imported products	Quantitative restrictions for 13 imported products Application of CCT and 'prelevement' from 1986
	6 years	6 years	Community regulations in force from 1986	for 13 imported countries and for Spanish exports	Reference price: reduction in 6 years	Application of preferential system: approximately 7 years
WINE	7 years	7 years	Application of Community regulations from 1986	For Spanish imports from the Ten	Abolition of tariffs: 7 years	Application of the CCT from 1986 and refunds
GRAIN AND FEED	1986-87	for production: 10 years for consumption: from 1991	Application of Community regulations		Trade liberalized from 1986	Adoption from 1986 of 'prelevement' and Community refunds Application from 1991 of the preferential system (Approximation 5 years)
Oil seeds and seed oils	10 years	For process: until 1991, amount equal to that of the approximation of prices. From 1992: amount equal to the difference between Spanish and world prices	Specific guarantee thresholds (colza, rape seed, sunflower)		Elimination of tariffs: seeds: 10 years oils: 5 years from 1991 Quantitative restrictions until 1991 for Spanish imports	Application of CCT: seeds: 10 years oils: 5 years from 1991 Application of preferential system: from 1991 (approximation 5 years)
Wheat	Adoption of Community prices: 1986	7 years	Application of Community regulations from 1986	For Spanish imports of wheat	Trade liberalized from 1986	Quantitative restrictions for Spanish imports Adoption of 'prelevement' and refunds from 1986
Barley	Spanish prices fixed until equalled by Community prices	7 years	Application of Community regulations from 1986	For Spanish imports	Trade liberalized from 1986	Quantitative restrictions for Spanish imports Adoption of 'prelevement' and refunds from 1986
Maize	7 years	7 years		For Spanish imports	Tariff elimination in 7 years	Application of CCT from 1986
Beef	Adoption of Community price from 1986		Application of Community regulations from 1986		Only from the Community to Spain (swine fever)	Quantitative restrictions for Spanish imports Application of 'prelevement' and refunds
Pigmeat	Adoption of Community prices from 1986	Full aid from 1986			Trade liberalized from 1986	Application of 'prelevement' and refunds

CCT = Common Customs Tariff
ACA = Accession Compensatory Amount
STM = Supplementary Trade Mechanism

